

Intro to Macroeconomics

Looking at the Big Picture

Variable	Macroeconomic Objective
economic growth	a steady state of increase in national output
employment	a low level of unemployment
price stability	a low and stable rate of inflation
external stability	a favorable balance of payments position
income distribution	an equitable distribution of income

Remember the **Circular Flow** diagram?

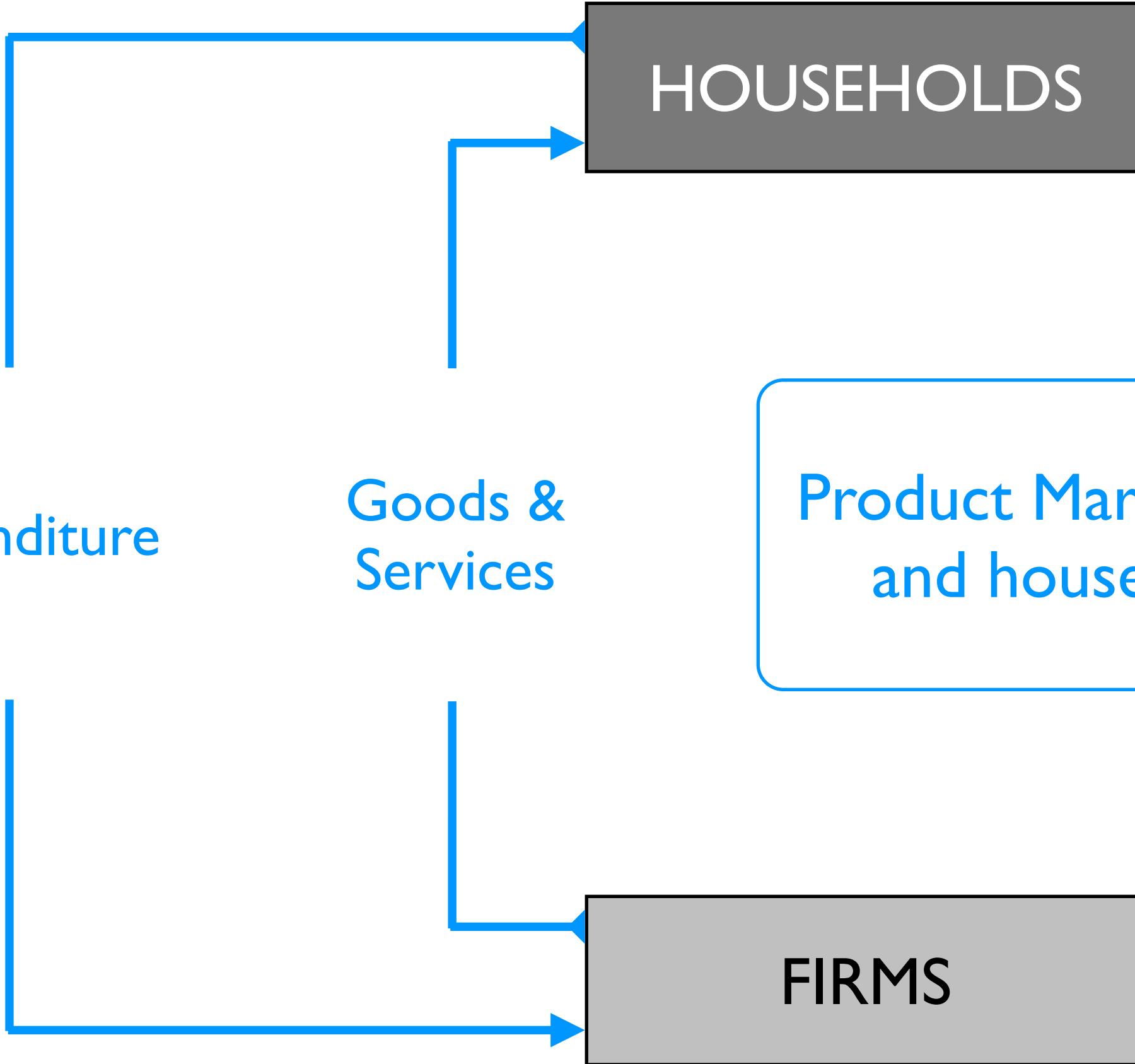
HOUSEHOLDS

Product Market: firms sell
and households buy.

FIRMS

Expenditure

Goods &
Services



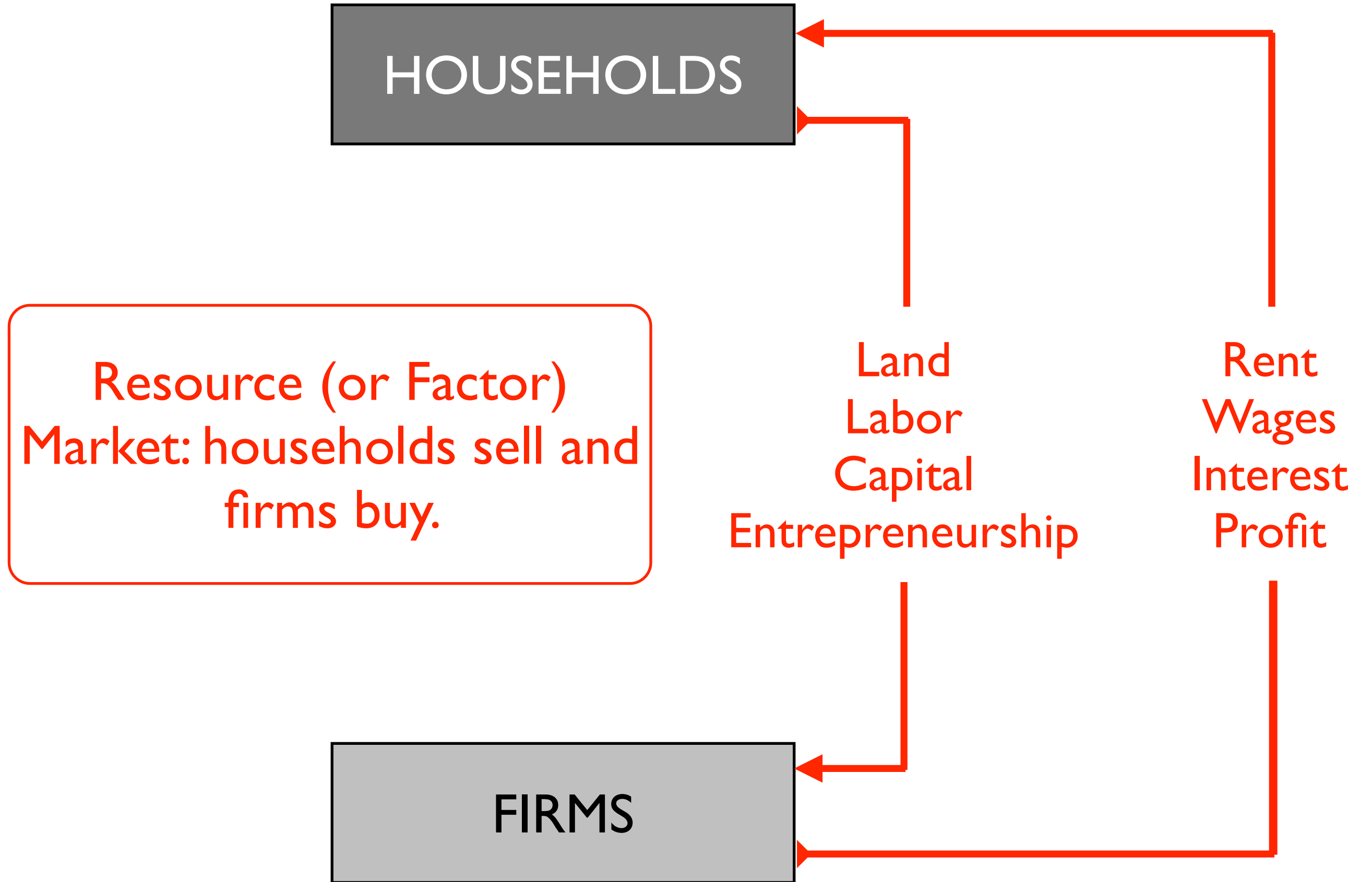
HOUSEHOLDS

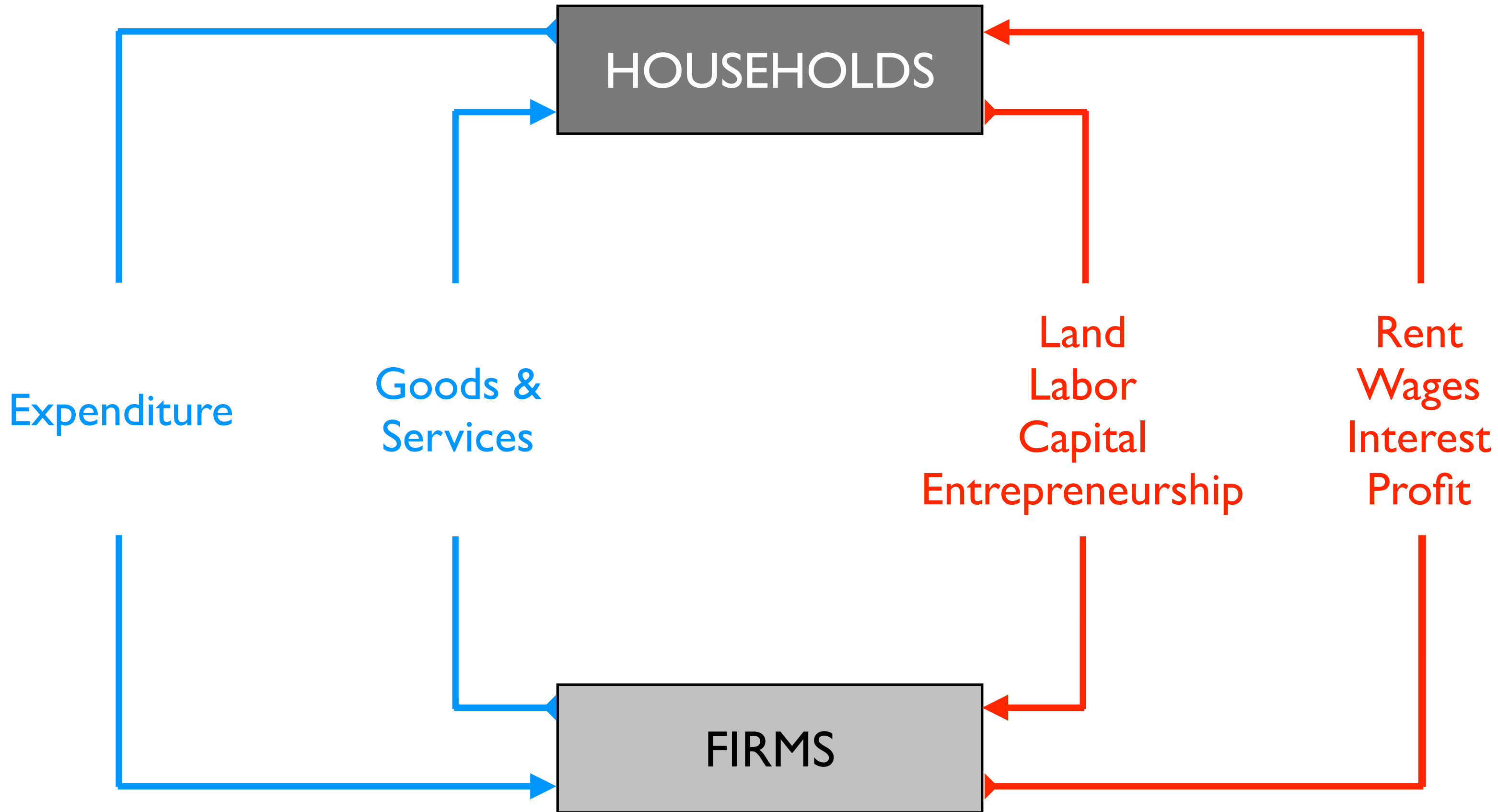
Resource (or Factor)
Market: households sell and
firms buy.

FIRMS

Land
Labor
Capital
Entrepreneurship

Rent
Wages
Interest
Profit





We can measure the “size” of the economy by adding up all the activity along one of three paths. The primary statistic used to measure the size of the economy is **Gross Domestic Product** (or **GDP**).

A diagram illustrating the flow of expenditure. At the top, a grey rectangular box labeled 'HOUSEHOLDS' has a blue line extending from its left side, which turns 90 degrees downwards. At the bottom, a grey rectangular box labeled 'FIRMS' has a blue line extending from its left side, which turns 90 degrees upwards. The two vertical lines are connected by a horizontal line, forming a U-shape. The word 'Expenditure' is written in blue text to the left of this U-shaped line. In the center of the diagram, there is a white rounded rectangular box with a blue border containing the text: 'We can add up all the money households spend on goods and services.'

HOUSEHOLDS

We can add up all the
money households spend
on goods and services.

FIRMS

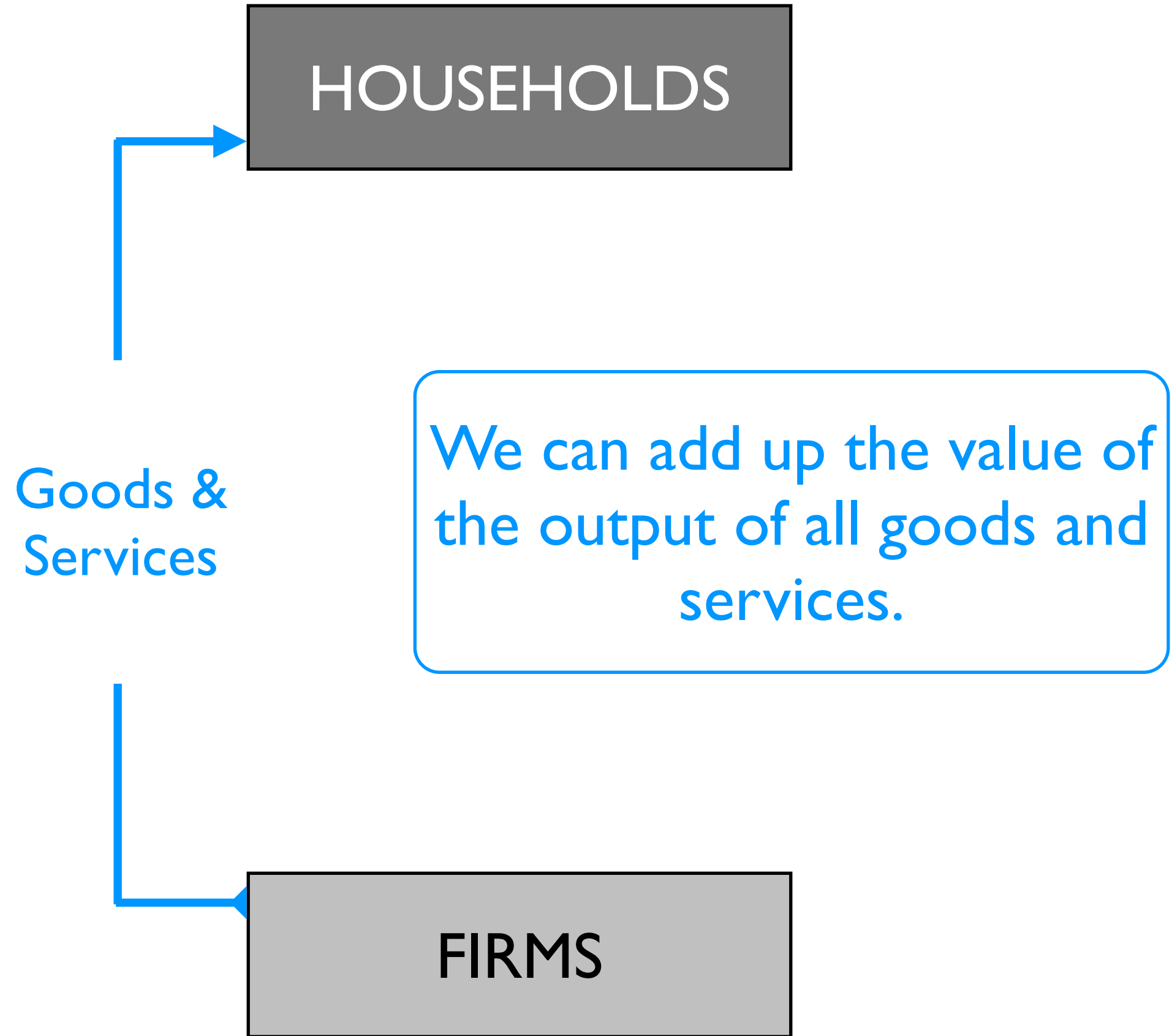
Expenditure

HOUSEHOLDS

Goods &
Services

We can add up the value of
the output of all goods and
services.

FIRMS



HOUSEHOLDS

We can add up the incomes of households for letting firms use their factors of production.

FIRMS

Rent
Wages
Interest
Profit

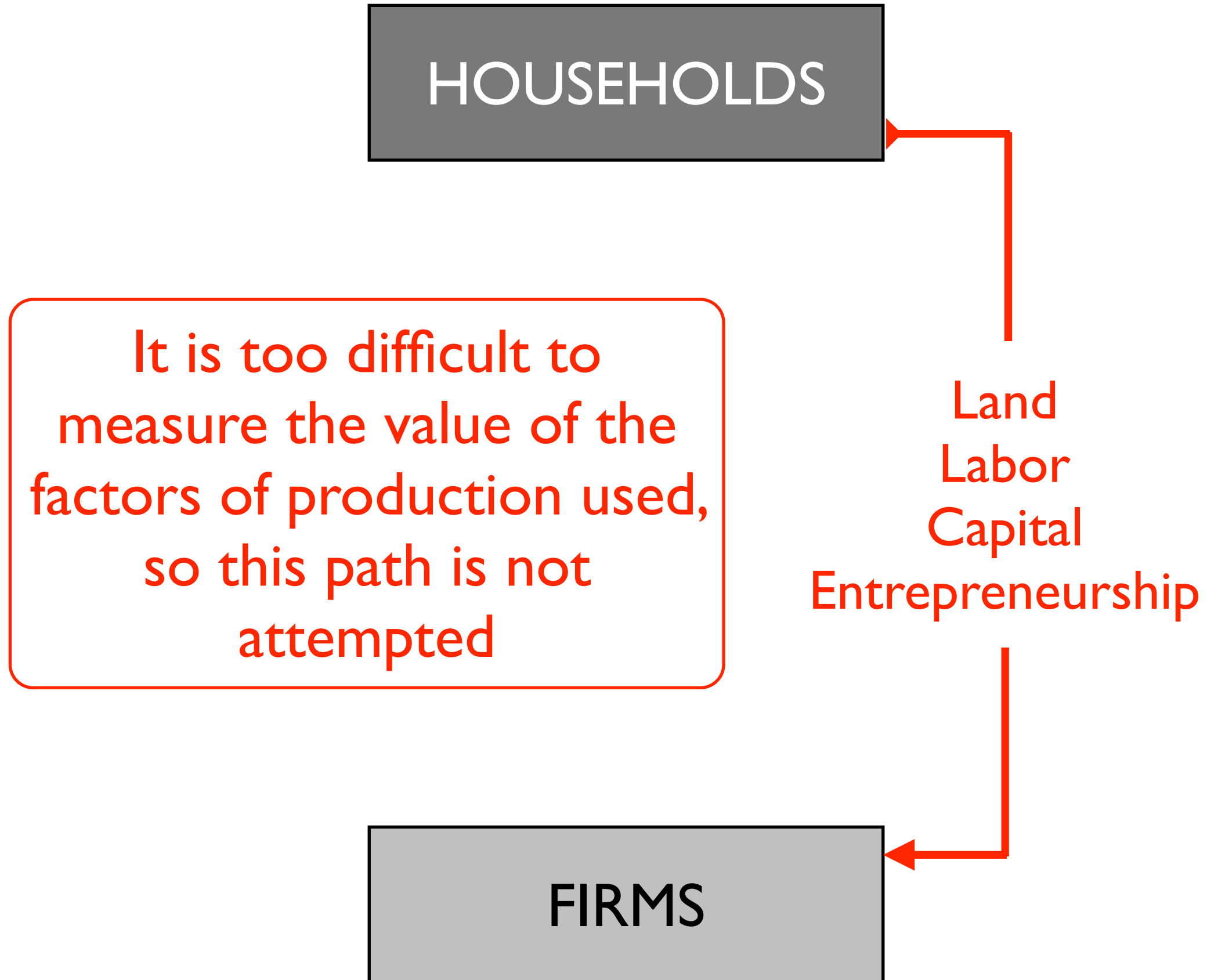


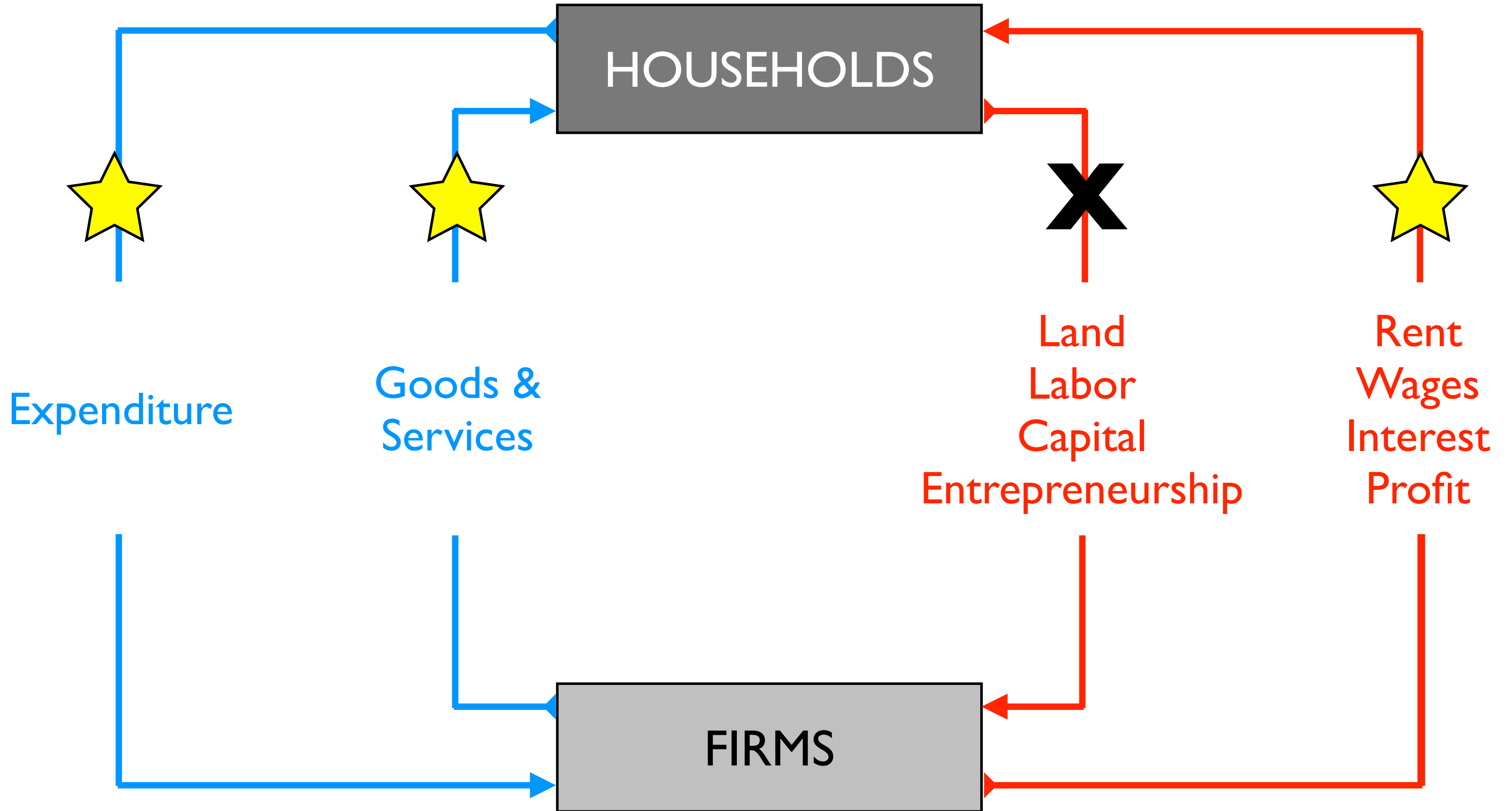
HOUSEHOLDS

It is too difficult to
measure the value of the
factors of production used,
so this path is not
attempted

Land
Labor
Capital
Entrepreneurship

FIRMS





In order to be accurate, any increase in **GDP** caused by rising prices (inflation) is ignored. We call this **real GDP** – “real” means that we have adjusted for inflation.

GDP is used to help us determine **economic growth** – whether or not the economy produced more goods and services this year as compared to last year.

To see if an economy has experienced **economic development**, a different statistic is used. The most frequently used statistic for economic development is the **Human Development Index** (or **HDI**).

HDI takes **GDP** per person and adds in measures of the adult literacy rate, average years of schooling, and life expectancy in order to determine if the average person's welfare is better.

Economic growth is measure of *quantity*, while economic development is a measure of *quality*.

Leakages

Saving

Imports

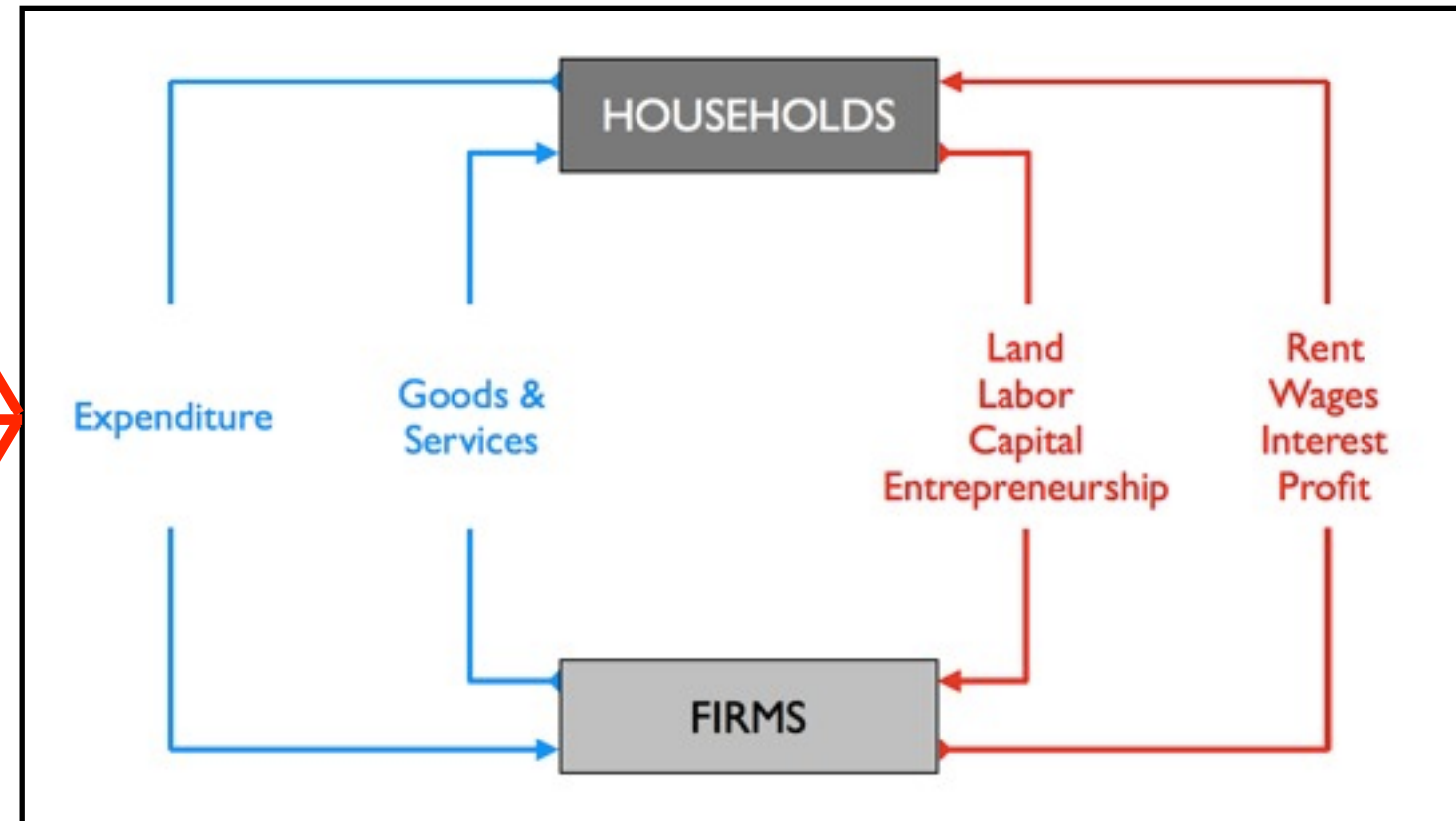
Taxes

Injections

Investment

Exports

Government
Spending



If there are more leakages, ceteris paribus, then the economy (GDP) will decrease.

If there are more injections, ceteris paribus, then the economy (GDP) will increase.